

VISIT...

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Activities

Module One: Activity 1 - Choosing Your Trading Stocks



- One of the most important decisions you'll be continuously making is "Which Stocks Should I Trade?"
- Be sure to read the "[How to Choose Stocks to Trade](#)" page first before doing this online trading activity.

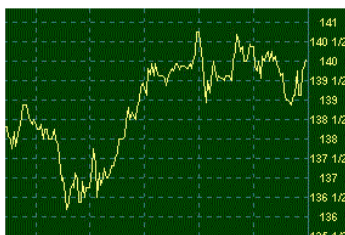
GOAL for this activity is for you to be able to pick 3-5 "core trading stocks" you would like to daytrade for the next several months.

Directions:

1. Choose 3-5 stocks to follow (you can use the stocks from [Worksheet 1](#) if you want).
2. Using the criteria on the "How to Choose Stocks" page, **create a new portfolio** in your favorite portfolio-tracking program or web page. Again, I'd recommend the [QuoteTracker](#) program.
3. Double check to make sure your stock picks meet the following criteria: average **volume around 1M-3M shares/day**; intraday **trading range of 5%** or better (critical), and a price that would allow you to trade 100-300 shares at a time, given your trading capital. (*Note: for any new trading training activity, always use small shares and don't worry about making a ton of money; these are to help you develop and apply the "on-the-job" skills. Later, you'll be increasing your trade sizes to 500-1K shares*).
4. Figure out how much you could've made if you'd successfully traded 80% of the best intraday range for each stock during one of the next several trading days.
5. Using your worksheet 1, figure out what your current profits would be in this "papertrade activity".

Examples:

You decide to keep track of DCLK, TDFX, NOVL, SPLS and EGRP.



In looking at the chart to the left (DCLK), you see the max range is:

bottom = 136 1/2

top = 140 1/2

or a 4-point difference. This doesn't quite meet our 5%-

rule, but is close.

If you had made a good trade in this stock for 80% of the range, your profit would be 80% of 4 = **3 1/4 points**.

I use 80% because almost nobody nails the exact top and bottom consistently; 80% is a realistic target to trade for.

At the end of several days, you'll find out how you did using these initial trading system approaches. There are many more things to learn in order to daytrade effectively; this activity will help you *get started* with the objective, logical trading skills you'll need to trade successfully. These type of activities help you build **trading observation and discipline skills** needed to survive.



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Activities

**Module One: Activity 2 - Using Limit Buys,
Trailing Stops and Market Sell Orders**



- You should master using **Limit Orders to Buy** and **Market Orders to Sell**
- We should also practice using trailing stops in this online trading activity.

Examples:

Your GOAL for this activity is for you to be able to get comfortable routinely using Limit Buys, Trailing Stops and Market Sell orders for your stocks using your brokers' order execution interface.

Directions:

BUYING STOCK ACTIVITY:

1. Choose 1 of your core stocks to trade. You will look for a good time to buy from 100-300 shares of this stock in the next couple of trading days.
2. Enter a **Limit Order to Buy** your stock at the Best Inside Bid price. You want to see if someone will "hit your bid" and buy from you on the bid, versus you paying full retail (buying the Asking/Offer price).
3. If you don't get a fill, don't chase it if it's running up fast.
4. If it's still in a narrow trading range and you haven't gotten a fill yet, try again, and this time use a Limit Buy at 1/32 Above the current Best Inside Bid price. (for example, if SBUX is trading 26 5/8 x 26 11/16, enter a Limit Buy 300 SBUX at 26 21/32). Now on 300 shares you're only saving \$9, but when you start trading frequently, and in larger lots, it makes a big difference to your profits.

Limit Buy Orders

Datek Online Express

[Open Orders](#) [Portfolio](#) [Daily Activity](#) [Messages](#)

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I understand that any extended hours orders I enter will be represented exclusively on the Island ECK. By placing an extended hours order, I agree that I have read the Extended Hours Disclosure, and understand the unique risks associated with [Extended Hours Disclosure](#), and understand the unique risks associated with Extended Hours Investing.

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Buy/Sell	Quantity	Symbol	Price	Order Type	Expiry	Stop Limit
Buy	300	SBUX	26 5/8	Limit	Day	

Password:

Datek Online does not provide a quote at the time of order entry on this Express server. You should consult a reliable quote source prior to entering an order.

TRAILING STOPS ACTIVITY:

1. Now, immediately enter a Stop Market Sell order for the number of shares you bought at a conservative level. If I had just bought 300 SBUX at 26 5/8 I would use a stop of 26 3/8. Don't worry about making the stop "too tight"; tight stops are what gives you 'more chances to play'. Personally, my stops are always 2-3 spreads under my buy price.
2. If your stock goes down, ok you get stopped out with a small loss.
3. If your stock begins to head up, wait til it has ticked through another 2 spreads, then Cancel your existing open Stop Market Sell order (and hit 'daily activity' to confirm it has been cancelled) then immediately enter a new Stop Market Sell order 1/16 above the old one (a trailing stop). Repeat this as the stock price moves up.

Trailing Stops

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Buy/Sell	Quantity	Symbol	Price	Order Type	Expire	Stop Limit
Sell	300	SBUX	26 3/8	Stop Market	Day	

Password: [Enter Order](#)

Datek Online does not provide a quote at the time of order entry on this Express server. You should consult a reliable quote source prior to entering an order.

MARKET ORDER SELL ACTIVITY

1. **Let's assume you have a trailing stop that's 2 spreads (1/8 point total) under the current market. You're in the green by 11/16 of a point (SBUX is at 27 5/16). Do you take your profit?**
2. First, check the overall condition of the sector index of the stock you're playing (eg \$GIN, \$SOX), then the \$COMPQ and the \$TRINQ. If the large indexes are headed back down, you might want to sell. If they're storming up, consider holding.
3. More importantly, check the volume, market maker orders and time & sales trend (if you have level 2) for your stock. What's it telling you? Is the tide turning and more sellers are selling than we have buyers that are buying?
4. **When in doubt, get out.** I get rich taking profits off the table too early. Fella by the name of Rockefeller said that too lol. Maybe the stock runs up another 1/2 point. That's ok, I booked a profit and made a good trade. I got the 'sweet spot' in the middle of the trend.

5. So, you see buyers drying up and your trailing stop is 1/8 pt. under the market. The major indexes are headed south. What do you do?
6. Cancel your current Stop Market Sell order, hit 'daily activity' to confirm it has been cancelled.
7. Enter a Sell Market Order immediately to lock in the extra 1/8 pt profit. (in this example it would be Sell 300 SBUX Market). Let's say I get it all sold at 27 1/4 (it ticked down a teeny as the order was selling). That's a profit of 5/8 (or \$.62x300=\$186) in a few minutes.
8. Get a drink of water (or coffee). Watch the gang on CNBC for a few minutes. Then, back to the charts. Where's the naz headed in the next 20 minutes? Volume? Time of day? The trade wars continue. You have just won a battle. Congratulations

Market Sell Orders

Datek Online Express

[Open Orders](#)
[Portfolio](#)
[Daily Activity](#)
[Messages](#)

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I understand that any extended-hours orders I enter will be represented exclusively on the Island EDN. By placing an extended-hours order, I agree that I have read the Extended-Hours Disclosure, and understand the unique risks associated with [Extended-Hours Disclosure](#), and understand the unique risks associated with Extended-Hours trading.

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Buy/Sell	Quantity	Symbol	Price	Order Type	Expires	Stop Limit
Sell	300	SBUX		Market	Day	

Password:

Datek Online does not provide a quote at the time of order entry on this Express server.
You should consult a reliable quote source prior to entering an order.

That's it. This is one successful approach I use to take small consistent incremental profits out of the market. It will take practice to get right. Remember my "10:30 Nasdaq bounce" observation; when the nasdaq starts on a down note and sells off in the morning, it will frequently bounce back up around 10:30am maybe 60% of the time. This is a high-percentage time to buy stock. Don't ask me why - perhaps institutional buy orders are triggered at that time. Also watch the market at 3pm when the bond market closes.



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Activities

**Module One: Activity 3 - Scalping Under-\$30
stocks**



- Learning to take daily small incremental profits ("sips") from the market via basic scalping techniques is a core daytrading skill to develop.
- For now, we'll focus on scalping without Level 2 (L2 scalping will be covered extensively in Module 2).

Examples:

Your **GOAL** for this activity is for you to be able to get comfortable routinely taking **1/4 point - to 1/2 point wins** from the market (remember to use stops of 1/8 or 3/16; you need to have a profitable win/loss ratio).

To do this, **you will need to buy at the bid** (most important). New traders, sell at the market when you see the first 'pullback' (price is dropping back). If you bought and the stock starts dropping immediately, exit the trade quickly (stop at 1/8-3/16pt).

For the more experienced traders (over 1 yr experience), **sell at the ask** if stock is going your way (enter a sell limit order while the stock is still upticking, before it turns). If you're late and the price is fading back, then cancel your sell limit order (wait for confirmation), and fire off a sell market order.

Directions:

SCALPING STOCK ACTIVITY (Basic Non-Level 2 Approach):

1. Choose 1 of your core stocks to trade that has a spread of 1/16th point and is currently trading at over 1million shares volume at the time you want to enter the trade. Also pick one that has a relatively flat intraday chart (new scalpers). (*why? Liquidity, you do not want to scalp stocks with low volume and large spreads, you'll lose. You need to be able to buy and sell very quickly*). Make a note of the support and resistance levels for this stock. You will look for a good time to buy from 100-300 shares of this stock in the next couple of trading days.
2. **Note that you will plan on spending no more than 20 minutes in this trade.** I usually like to make these 5- to 15-minute round trip trades. ***Note that winning trades are almost always "winners from the start"***. You might get a 1-spread shake and then it moves up. If you entered the trade incorrectly,

Activities

Module One: Activity 4 - Daytrading Relative Strength Patterns



- **Learning to trade within sectors (like the pros do) will help you spot the strongest stock in a group to trade.** See [Module 1 page 12 for an intro.](#)
- This is a professional, easy-to-use technique that should help your trading profits increase.

Examples:

Your GOAL for this activity is for you to be able to learn to follow 5 stocks within either the internet or semiconductor sector. By doing this, you should be able to identify the strongest vs. weakest relative strength stock to trade within the sector.

Directions:

Your first decision: choose either the semiconductor (\$SOX) or internet (\$GIN) sector to watch for a 1-week period of time. (note: your quote source may use / or ^ instead of \$)

- Put up a small 3-minute index chart (either \$SOX or \$GIN) at the upper left corner of your screen. (it should take up 1/9th upper left corner of your screen).
- Now, put 2 same-size charts for the "sector leaders" in the upper center and upper right corner of your screen. Sector leaders for \$GIN = YHOO and AOL, for \$SOX = INTC AMAT.
- This upper third of your screen is now your "primary indicator": you've got the composite index for a sector plus two of the "generals" or lead stocks.
- Finally, put 2-4 intraday charts in the bottom 2/3 of the screen for your favorite stocks within the sector you've chosen. Do not, for example, put MSFT or WCOM in here! If you're learning sector strength for internets, then choose other net stocks (MSPG LCOS CNET DCLK ATHM etc.). For semi's, choose stocks like XLNX KLAC etc.

Your screen should look something like this when you've finished setting it up and are ready to follow the stocks you are trading:

\$GIN Internet Index Chart (Intraday)	YHOO Intraday Chart	AOL Intraday Chart
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How to Build Your Sector Relative Strength Trading Skills:

You are watching for RELATIVE WEAKNESS or STRENGTH for your stocks **in COMPARISON with** the index and sector leaders. Your skill is developed as you learn to IDENTIFY DIVERGENCE between the index/leaders and the specific stocks that you trade.

Question: If the index and/or sector leaders show weakness and seem to be selling overall throughout the morning (or day, if you're playing the afternoon session), yet your stock remains flat/choppy, what does that tell you?

It tells you that your stock has a **STRONG** relative strength and that you should watch it for a buying opportunity once the index and/or sector leaders start to head back up on buying.

And the inverse is true too, of course: if your stock is selling and the index and leaders are buying, then you have a weak stock that you should not buy (or should consider shorting).

As always, check the current volume of your stock compared to it's average daily volume for the last 10-20 days to see if it's being bought on higher-than-average volume (a bullish sign).

Learning to play within sectors is a great way to make a living. I tend to like the semis and nets because they have good volatility and range. You might also want to watch and trade the boxmakers, wireless/telcos, retail or other sectors. This is a useful trading skill to develop.

Activities

Module One: Activity 5 - Just for Fun



Examples:

- Your daytrading efforts should never feel like gambling
- That having been said, some of the money management techniques involved in gambling can occasionally be useful to the astute daytrader

"Just for Fun" Activities:



1. Rent the movie "[Rounders](#)". Which of these four gambling types do you think you should try to be like as a daytrader? Which should you avoid?

- **Matt:** the up and coming legal student (star of the movie) who has the skill, but lacks the discipline, to be an effective poker player. He gets swept up by emotions such as hope, greed, and fear; especially when around others like his friend (stockplayers, this is equivalent to being in some of those chat rooms out there!).
- **Worm:** Matt's friend, the guy who gets out of jail at the start of the movie. Always in trouble, tries to cheat at cards all the time. Gets in hock using friends' money. This is equivalent to the stock trader who always looks at "pick lists", borrows on margin and from family/friends' money (including the rent money!) and tries to "beat the market".
- **Knish:** the older guy who tries to help and mentor Matt; his best line in the movie was "I don't take chances, I depend on my playing to pay alimony, to pay my rent. I push when the cards are hot and back off when I'm down. I do this for a living".
- **Teddy KGB - the Russian:** he's "the house"; plays by the rules and is very skilled. Extremely well-capitalized. Let's say he's the equivalent of a market maker like SBSH or MSCO.

Answer: you definitely don't want to trade like Worm. Let's say for now you're Matt, but your goal is to be like Knish. He doesn't go for homeruns. He does this steadily for a living. As Kenny Rogers said, he "knows when to hold them and when to fold them". He makes a living at this. He doesn't get surprised. He knows his limits. Note: this movie isn't a great movie, it's 'just ok' maybe 7/10 rating ([Casino](#) is a great movie, 10+/10), but it has an interesting lesson to learn re: the emotions of putting money on the table to try and win. A must-see for daytraders.



"Just for Fun" Activities:

1. Rent the movie "[Wall Street](#)". What trading characteristics does Gordon Gekko (Michael Douglas) have that are admirable? What do we want to avoid? How about Bud Fox (Charlie Sheen)?

- **Gordon "Greed is Good" Gekko:** the aggressive, competitive, win-at-any-cost master trader who crosses the line into insider trading to accumulate wealth. He mentors up-and-coming trader

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a shrewd market maker working for SBSH. He becomes a rogue trader, breaking the law.

- **Bud "Newbie" Fox:** the new kid, way in over his head, gets blinded by the instant wealth that's possible from trading stocks. Unethical trading spoils his future as he lets himself get caught up in Gekko's illegal and unethical insider trading methods. Think of him as a new trader with a "hot stock tip" or as a current well-known chat room figure who is being investigated by the SEC for pump-and-dump practices.

How would you respond to the temptation that Gekko presents in this film? How do you struggle with trading decisions based on data that you have available? Ok, we'd all say we'd never participate in insider trading, but how about responding to pressure to buy specific stocks (often questionable) that you see hyped in chat rooms and message boards?

What's the right answer? Hopefully we all know it's old-fashioned hard work and DD, relying on our knowledge of TA and trading discipline, especially small stops, to keep us in the game and playing profitably.

What personal trading struggles have you dealt with? Make sure to understand and apply the concept of trailing stops for your trades.